



Testimony

before the

House Committee

on

Tax Policy

Regarding

--- PUBLIC ACT 93 OF 2007 ---

Wednesday, November 7, 2007

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On behalf of the members of the Michigan Hotel, Motel & Resort Association, we would like to express our appreciation for the opportunity to submit this written testimony detailing the specific impacts Public Act 93 of 2007 will have on our industry.

Lodging Depends on strong Tourism Outcomes

Michigan's lodging industry depends on the strength and vitality of our state's tourism industry. With the exception of some of our destination properties and resorts, travelers do not come to lodging properties for the sole purpose of staying there. People seek out comfortable accommodations where their family can eat, rest and relax at the end of their daily vacation, leisure, or business travel excursions.

The vast majority of tourists, vacationers, and leisure travelers don't travel to hotels, they travel to destinations. They travel and vacation in resort, rural and urban destinations to golf, downhill and cross-country ski, sightsee, fish, and ride in horse-drawn carriages. They take taxis to museums, sports venues, and casinos in some of our great urban destinations. They travel to attend conventions, and auto shows, they take dinner cruises, ride ferries, and take train rides and excursions.

Unfortunately, all but one of the above tourist, leisure, or business travel activities is targeted for taxation under Public Act 93 of 2007. And respectfully, therein lies the problem...

Tourism is the Ultimate in Discretionary behaviors

Tourism is the only one of Michigan's three great industries that is utterly and completely dependent on discretionary spending.

That means the roughly 200,000 jobs tourism provides; the \$17 billion in gross revenues it generates; and the approximately \$1 billion in tax revenues it provides to the state are all equally dependent on the discretionary behavior we call tourism.

The decision for a business to send an employee to a convention, and the decisions families make every day regarding vacation and leisure travel can turn on a dime. Tourism outcomes are tremendously affected by factors over which we have no control. Families cancel travel plans on the basis of summer thunderstorms or winter blizzards.

Skiers can cancel downhill ski trips due to warm winter weather affecting ski conditions. The price of gasoline, consumer uncertainty regarding economic conditions and their job future can all negatively impact the decision to travel and vacation in Michigan. And, we need only to recall the events of 9-11 to be reminded of the impact that world events can have on travel and tourism.

Considering all of the above, it comes as no surprise that Michigan's tourism industry outcomes rise and fall on discretionary spending. In fact, Michigan hotel occupancy, (generally accepted as a good barometer of overall tourism outcomes), has finished dead last nationwide for the past two years. And early trends indicate a similar outcome as 2007 draws to a close.

Tourism Profit Margins are Slim and have worsened in recent years.

Given tourism's dependency on discretionary spending by business and consumers, it comes as no surprise that our industry depends on a strong and vibrant economy for overall results. In fact, because of insufficient State funding for out-of-state tourism promotion, our industry has grown overly-reliant on Michigan residents for economic outcomes. This strategy worked well-enough when our manufacturing base and auto sales were strong.

However, tourism outcomes and the sales tax contributions we make to Michigan's school aid fund and revenue sharing programs have been disastrously impacted. Many independent lodging operators are watching their life savings dwindle away due to low occupancy levels and an inability, or unwillingness of the state to reach beyond the Great Lakes region to promote our tourism assets.

Unlike cigarette smoking or drinking beer, wine or liquor, tourism is neither an addictive or habituated behavior. Given its discretionary nature; this makes Michigan's tourism industry a very poor target for a 6% use tax on discretionary and luxury services. In fact, the application of this Act on tourism only adds to the multitude of factors that are already working to surpass tourism outcomes and further damage Michigan's economy.

Clearly something must be done, but we can say without doubt, PA 93 is not the answer. Michigan's hotels, motels & resorts depend on all of the tourism-related NAICS codes specified under PA 93 to put heads in beds.

For these reasons, we respectfully request that PA 93 either be repealed outright, or all NAICS codes related to tourism services be removed from the list of services subject the Michigan's 6% Use Tax on services.

Thank you for your attention and consideration of these concerns.